Home Equity Conversion Mortgage (HECM) (Section 255)

The Federal Housing Administration (FHA) mortgage insurance allows borrowers, who are at least 62 years of age, to convert some of the equity in their primary residences into monthly streams of income or lines of credit.

Nature of Program: Reverse mortgages can provide a valuable financing alternative for qualified elderly homeowners. Lenders who are authorized to originate loans under the Direct Endorsement (DE) program must submit acceptable test cases in order to be approved to originate HECMs.

Borrowers may choose from among five payment options: (1) tenure, by which the borrower receives equal monthly payments from the lender for as long as the borrower lives and continues to occupy the home as a principal residence; (2) term, by which the borrower receives equal monthly payments for a fixed period selected by the borrower; (3) line of credit, by which the borrower can make withdrawals up to a maximum amount, at times and in amounts of the borrower's choosing; (4) modified tenure, by which the tenure option is combined with a line of credit; and (5) modified term, by which the term option is combined with a line of credit.

Borrowers have several obligations after the loan closes, including (1) occupying the home as their primary residence; (2) making timely payments of property taxes, home owner association fees and ground rents; (3) maintaining homeowner's hazard insurance; and (4) maintaining the property in a condition equal to when the loan was closed. The borrower retains ownership of the property and may sell the home and move at any time, keeping the sales proceeds in excess of the mortgage balance. The borrower cannot be forced to sell the home to pay off the mortgage, even if the mortgage balance grows to exceed the value of the property. An FHA-insured reverse mortgage becomes due and payable under various circumstances such as the death of the last remaining mortgagor, or the mortgagor sells the home, or the mortgagors fail to keep up their obligations. When the loan is due and payable, if the loan exceeds the value of the property, the borrower (or the heirs) will owe no more than the value of the property.

Applicant Eligibility: All borrowers must be at least 62 years of age, occupy the property as a principal residence and have participated in a consumer information session given by a FHA-approved HECM counselor. Any existing lien on the property must be small enough to be paid off at settlement of the reverse mortgage. Borrowers must not be delinquent on any federal debt.

Legal Authority: Section 255 of the National Housing Act (12 U.S.C. 1715z-20). Regulations are at 24 CFR parts 200 and 206.

Administering Office: Assistant Secretary for Housing-Federal Housing Commissioner, U.S. Department of Housing and Urban Development, Washington, DC 20410.

Information Sources: Administering office and HUD field offices.

On the Web:
http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/hecm/hecmabou

Current Status: Active.